

HISTORY OF BANK INDONESIA : PAYMENT SYSTEM
Period from 1999-2005



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1. Highlights



This period was the reformation period. There were 3 presidents who lead the nations alternately; they were B.J. Habibie, Abdurahman Wahid and Megawati Soekarnoputri. During the third presidential era, the Indonesia economic development was improving due to the positive factors that began to influence. These factors were the relatively fine international economic development, the relatively conducive

national social politic development as well as the relatively stable monetary condition. Based on UU No. 23/199, BI remained as the only organisation that had the authority to emit and circulate rupiah, to destroy, to revoke and to withdraw back from circulation. At the beginning of this period, BI emitted the Rp 100,000 denomination banknotes (1999) made of polymer substrate. Subsequently, in respect of the 100th anniversary of RI proclamator, the exclusive Bung Karno Series coins was emitted in 2001 and Bung Hatta Series in 2002. The coins were made of gold and silver. Beside that, the new coins of Rp 200 and Rp 500 denominations made of aluminium were emitted in December 2003.

Meanwhile in the clearing practice, modification was made once again in this period for the clearing schedule from T+1 to T+0. Apparently during the time of T+1 Jakarta clearing schedule, there were many banks that had a large amount of debit and credit balance. After investigation, there were many rupiah and foreign exchange transactions performed in Singapore and Hongkong which were settled by clearing in Jakarta. Therefore, to give a quicker clearing procedure, Bank Indonesia modified the clearing schedule from T+1 to T+0 (same day settlement) since 19 August 1999. By 2000, Real Time Gross Settlement System (RTGS) was used in all BI offices to store all bank cash account in the RTGS central operation at BI Jakarta. With this system, BI-Line was no longer in use and the clearing transaction form the Bank Indonesia head office and branch office or banks other than BI directly entered into RTGS electronically.

Since February 2002, Bank Indonesia provided the new facility for clearing results information which had already been processed in banks. This facility was known as the Long Distance Clearing Information System (SIKJJ) which included clearing recapitulation, black list and clearing fare information. Hence, BI provided the local clearing practice results shortly, accurately, and completely which to be access via the BI extranet facility. This system was useful in facilitating the accounting process and as a safety for the clearing participants. Following the end of 2002, BI had implemented clearing document between the Bank Indonesia working region also known as intercity clearing. Previously, clearing procedure between regions was settled through the collection process. The last non-cash payment system policy in this period was the Scriptless Securities Settlement System (S4) that was arranged to facilitate the SBI and Nation Loan Documents (SUN). S4 would be performed in January 2004.

2. Focus on Policies 1999-2005

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In terms of non-cash payment, the policies were still focused on regulating and maintaining smooth payment system which efficient, fast, safe and reliable. In this way, the monetary system remained steady. The goals were to minimize the risks, step up efficiency and reliability of the payment system, as well as protect the consumers from the payment system users.

3. Strategic Measures 1999-2005

In this period, BI took a number of strategic steps aimed to further develop and improve the payment system.

In this period, BI took a number of strategic steps aimed to further develop and improve the payment system. The steps were, among others:

1. Made efforts to suppress currency counterfeiting by stepping up the coordination with the Coordinating Agency for Eradication of Counterfeit Money (Botasupal) and improvement of the counterfeit money reporting system.
2. Amended the regulation on bringing money out of the country.
3. Forged cooperation with PPATK to fight money laundering.
4. Forged cooperation with the third parties to supply small change to the public

4. Cash Payment System

a. Management of Cash Payment 1999-2005

In this period, a number of steps were taken to step up the efficiency and security of money supply. These steps comprised revising the procedure for bringing in and taking out money from the Indonesian territories, escalating the efforts to suppress rupiah counterfeit, improving the cash administration automation and using the third parties' conversion service to small change.

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The Prerequisites and Procedure for Taking Out and Bringing Money into the Indonesian Territories

As from 17 October 2001, BI imposed a new regulation on taking rupiah out and bringing rupiah into the Indonesian territory. This regulation was intended to amend the previous regulation which had been in effect from 6 March 1998. Under this new provision, taking rupiah out of Indonesia up to amounting to Rp5 million did not require any permission or declaration in the departure point. For the amount exceeding Rp 5 million to Rp10 million did not require any permission from BI, but the person had to declare it at the departure point. While taking rupiah out of Indonesia in the amount of more than Rp10 million had to obtain a prior written permission from BI, and but the person had to declare it at the departure point.

If the amount of money brought in into the Indonesian territories was up to Rp50 million, it did not have to be declared at the arrival point. But for the amount exceeding Rp50 million up to Rp100 million, it had to be first declared at the arrival point. Furthermore, for the amount exceeding Rp Rp100 million, apart from having to be first declared at the arrival point, the banknotes' authenticity was subject to inspection.

Conversion to Small Change via the Third Parties

To meet the public need for banknotes, particularly for small change, on 13 December 2001, BI introduced a small change conversion pilot project for the public with the help of third parties. This service was available to meet the public need in the Special Capital Territory of Jakarta. The firms appointed to provide such conversion service were present where people were assembling and in need of small change conversion service, for example traditional markets and terminals. This service was free of charge.

This small change conversion program was subsequently expanded to small towns and remote places as well. Up to 2003, this joint effort pilot project covered seven

BI offices in Medan, Palembang, Bandung Semarang, Surabaya, Denpasar and Makassar. This conversion service via the third parties was considered working well as it proved more cost efficient and with broader scope compared to BI's mobile teller service. Following such shift of such conversion duty, BI was no longer required to provide mobile teller and could therefore focus its attention to the other teller services.

Efforts to Suppress Rupiah Currency Counterfeit

BI keeps its efforts to suppress rupiah currency counterfeit in both preventive and repressive manner. Money counterfeit will erode the public confidence in rupiah. This preventive measure was carried out by exerting more security on the money material, money design and money printing technique. As a result, any countefeting attempt was more difficult to do. The other preventive measures taken are by socializing the features of banknote authenticity and how to recognize authentic banknotes. This socialization uses various means, namely counseling, exhibitions, distribution of brochures, posters and stickers, article writing and public service ads through the newspapers, radio and television. In the meantime, the repressive measures are taken through some joint efforts with the related institutions through the legal process with all the parties involved in money counterfeit. This collaboration comprises reporting of forge money discovery, arresting those implicated with money counterfeit and legal proceedings.

To curb money counterfeit, BI has been cooperating with the Anti-Counterfeiting Coordinating Agency (BOTASUPAL) chaired by the Chief of the State Intelligence Agency (BIN) with members made up of Chief of Indonesian Police (POLRI), BI, Perum PERURI, Attorney General Office, Customs & Excise and Immigration.

Improvement of BI Cash Administration Automation

BI introduced the Cash Administration Automation (OAP) in July 1997. However, due to the development in the money supply operation, BI had amend its OAP procedure as to overcome its system weaknesses. Until now, BI is still facing a few weaknesses, among others relatively high recording errors, inefficient manpower, too much repetition of the same work, and relatively time consuming.

To address these weaknesses, BI amended and revised the OPA provisions already compiled and contained in the General Guidelines of BI's Cash Administration Automation. These guidelines, which were effective from 31 October 2003, are to expected to help BI fully understand the OAP's basic concept. In this way, the cash activities will run smoothly and orderly through the uniform application of the procedures.

b. Cash Payment Instrumen 1999-2005

On 29 November 2000, BI issued new denomination of Rp 1,000 to replace its predecessor, namely 1992 emission. This banknote depicts one of the national heroes, Kapitan Pattimura. Next, is the Rp5,000 denomination which was circulated from 6 November 2001. The backgrounds mainly depicts another national hero, Tuanku Iman Bondjol.

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In this period, BI annuled and withdrew several banknote denominations to prevent counterfeit and replace the ones which had been circulated for too long, namely more than five years whereas their replacement had been in sufficient supply. As from 21 August 2000, BI annuled and withdrew from circulation the following banknotes: Rp10,000 denomination of 1992 emission depicting Sri Sultan Hamengku Buwono IX Rp20,000 of 1992 and 1995 emissions depicting the Bird of Paradise, and Rp50,000 denomination of 1993 and 1995 emissions depicting the President Soeharto.

Simulateneously, BI withdrew plastic made Rp50,000 denomination of 1 March 1993 emission as a commemorative notes. The public was given the opportunity, from 21 August 2000 to 20 August 2005, to exchange these revoked notes in BI offices and commercial bank offices, while from 21 August 2005 until 20 August 2010, the conversion only took place in BI offices. After 20 August 2010 or ten years from their revocation, the banknotes will be declared invalid.

The Central Bank Coins

To help the public make smooth transactions, from 3 November 2003, BI issued and circulated new coins of Rp200 denomination. On the same date, BI also issued and circulated new coins of Rp500 denomination. Both fractions are made of aluminum depicting the Balinese Jalak bird for Rp200 denomination and Jasmine flower for Rp500 denomination. Aluminum was picked in view of this metal price and rupiah value and to keep the proportion of the coins' intrinsic value and their nominal value.

Commemorative Coins

1. For the Children of the World series

The coins of these series comprise denomination of Rp150,000 made from gold and sold at Rp1,500,000, and denomination of Rp10,000 made of silver and sold at Rp400,000. Both denominations are marked Rp 1999 and were circulated from 31 January 2000.

2. The coins to commemorate the 100th Anniversary of Bung Karno

These commemorative coins are made of gold for the denomination of Rp500,000, and the silver coins for the denomination of Rp25,000. They are priced Rp3,000,000 and Rp750,000 respectively. These special coins marked 2001 were circulated as from 6 June 2001.

3. The coins to commemorate the 100th Anniversary of Bung Hatta

These commemorative coins are made of gold for the denomination of Rp500,000, and the silver coins for the denomination of Rp25,000. They are priced Rp3,000,000 and Rp750,000 respectively. These special coins marked 2002 were circulated as from 12 August 2002.

5. Non-Cash Payment System

a. Management of Non-Cash Payment 1999-2005

The non-cash payment traffic policy made in this period was a part of the blueprint of the National Payment System which had been in place since 1996. The new steps taken in this period were among others:

1. BI's Real Time Gross Settlement System (BI-RTGS)
2. Intercity Clearing.
3. Long-Distance Clearing Information System..

The non-cash payment traffic policy made in this period was a part of the blueprint of the National Payment System which had been in place since 1996. The new steps taken in this period were among others:

1. BI's Real Time Gross Settlement System (BI-RTGS)

RTGS refers to an interbank electronic fund transfer system with transaction settlement on individual and real-time basis. In this way, the participants' bank accounts may be debited or credited repeatedly in a day according to the payment instructions and payment receipt from the other parties. BI views that the RTGS system is suitable for large amount transactions. Based on the experience from other countries, this system is superior in many respects, namely it offers a settlement mechanism which is able to reduce the systemic risk and minimize float. In this way, the system can boost bank supervision effectiveness, and enable integration with a number of payment system applications such as the money market and capital market.

2. Intercity Clearing

In mid 2002, there were 102 local clearing areas, those conducted by BI and other parties. As regards clearing of documents from outside the region, only cheques or crossed cheques issued by the clearing participating banks in the said region could be cleared. The cheques and crossed cheques issued by the bank offices situated beyond their clearing areas, would be settled by the respective banks through the collection mechanism.

The public, banking sector and BI discovered some drawbacks in such intercity cheque/crossed cheques settlement. They were: relatively high collection transaction costs which had to be borne by the customers, relatively long and uncertain transaction settlement. As a result, the customers were difficult to manage their cash flow. Besides, there was risk of missing documents while being transported. While the banking sector was not happy with the extra fees for the documents delivery or correspondence, and collection document management. All these make the banks become less competitive, and service quality provided deteriorate. As each bank had to devise its clearing mechanism of documents coming from outside its own territory through individual collection,

this process resulted in inefficiency across the country. BI also found some drawbacks in terms of collection mechanism inflicting the banking sector and the public. These in turn harmed the efforts to increase the use of cheque payment instruments in the public. Apart from that, the long time required for collection transaction process triggered float over the funds. As the collection transactions were carried out by the banks bilaterally, BI lost its access to the information on the nominal amount and collection transaction volume. All these drawbacks which were shared by the public, banking sector and BI were then overcome through inter-region clearing.

The development of computer technology and communication technology have been utilized for electronic transactions by the respective banks, especially major banks. Current account or saving customers of a bank office are able to release their funds from another office of the same bank in another clearing region. Banks that receive cheques are able to validate signatures and balance of the accounts that will be drawn by verifying the signature with the signature specimen kept in the electronic file and access the account data. Such electronic transaction development of each bank backs up the clearing implementation which hopefully can cope with the drawbacks found in the transaction settlement by means of cheques or crossed cheques via collection.

To improve its efficiency of such payment system, BI issued a regulation to enable the banks to effect clearing through a local clearing, cheque/ crossed cheques issued by the bank office which took part in another clearing territory.

3. Long-Distance Clearing Information System

To meet the needs, the participants of manual clearing, semi-automated clearing, automated clearing, electronic clearing, inter-region clearing, BI created a new facility, namely Long-Distance Clearing Information System (SIKJJ). This system provides early, accurate, complete, and safe information concerning the result of local clearing which may be quickly accessed through communication means. This system is run by BI or other parties which have obtained a license from BI to do local clearing using semi-automated system. The users of the system are all direct participants of local clearing using semi-automated, automated and electronic system which are registered as the parties who can make use of Long-Distance Clearing Information System (SIKJJ) in BI overseeing the banks. In addition, the head office and bank coordinating office as the local clearing direct participants may also use such data by accessing to Long-Distance Clearing Information System (SIKJJ).

The information facility found in the Long-Distance Clearing Information System (SIKJJ) of each bank is made up of:

- recapitulation of delivery and return clearing results comprising cheque clearing balance and breakdown of delivery clearing results in the local clearing house,
- recapitulation of delivery and return clearing results over the clearing of documents coming from outside its territory,
- blacklist of individuals drawing bad cheques/crossed cheques in a local clearing territory,
- expenses charged to the participants of local clearing,

- other information pertaining to the clearing activities.

This Long-Distance Clearing Information System (SIKJJ) may be accessed on every business day from 07:30 to 21:00 Western Indonesian Standard Time. The information regarding the recapitulation of the clearing results are available according to the timetable of providing information about the clearing results for seven days a week. Each user is charged with some fee of which the amount is determined through the provision on clearing expenses. In the event of some discrepancy of the data found in the report printed by the provider and the data from Long-Distance Clearing Information System (SIKJJ), the data quoted in the clearing house's report shall be deemed correct.

b. Non-Cash Payment Instruments 1999-2005

This period witnessed an extremely rapid increase and development of non-cash payment instruments using card media like debit cards, credit cards and ATM cards.

This period witnessed an extremely rapid increase and development of non-cash payment instruments using card media like debit cards, credit cards and ATM cards. This escalation was contributed by the increasing number of card holders and transactions of these three cards followed by the rising value of transactions. In addition, the ATM activities are rising as the ATM service network is expanding due to the additional machines and increasing number of banks that have joined switching ATM. In the meantime, the non-cash payment instruments using the paper media remain consisting of cheques, crossed cheques, bank drafts, debit notes, credit notes and some other clearing documents.